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SUBJECT: France: Telecom and Information Technology Update

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1. This is another in a series of periodic updates on the French telecommunications and information technology sectors, including internet and e-commerce.

Contents:

- Record fine for France Telecom (para 2);
- Hefty fines for French mobile phone operators (para 3);
- France Telecom fined for "negative" ad campaign (para 4);
- Eutelsat relaunches IPO (para 5);
- A new Google AdWord campaign for Sarkozy's UMP Party (para 6);
- Crackdown on internet bloggers (para 7)
- Digital television spreading faster than expected (para 8)
- Orange offers first EDGE-enabled BlackBerry in Europe (para 9).

2. Record Fine for France Telecom: The French Competition Council (Conseil de la Concurrence) imposed on November 7 an 80 million Euro fine on France Telecom (FT), the highest fine ever imposed in its history. This amount comes on top of another 40 million Euro fine already imposed on FT for failure to respect the interim measures imposed by the Council in this same case. FT was found guilty of abusing its dominant position on the wholesale market for high-speed Internet access by preventing other telecoms operators from having access to the local loop. FT Chairman Didier Lombard hit back during the recent International Conference of French Telecoms and Internet consultancy IDATE on November 27. Lombard called the fine "disproportionate" and blamed the "two organizations that depend on the State" (i.e. the competition Council and the telecoms regulator ARCEP) for "legal instability" that in turn destabilized FT. He underscored that FT's approach was a key factor in the development of the broadband market in France, which has become the leading European country both in terms of ADSL lines and number of unbundled lines.

3. Hefty fines for French mobile phone operators: On December 1, three French mobile phone operators, FT Orange, Bouygues Telecom and SFR, have been found guilty of market collusion by the French Competition Council and ordered to pay 530 million Euros in fines. Orange has been fined 256 million Euros while SFR and Bouygues have been handed 220 million and 58 million fines respectively. Orange and SFR have both already said that they would appeal the Competition Council decision. This fine is the largest single penalty ever levied by the French competition watchdog, which found that the three mobile operators had exchanged confidential commercial information during the period from 1997 to 2003. The information, shared on a monthly basis, included details of the number of new subscriptions sold during the month, as well as the number of customers that had cancelled their subscriptions. The Council said that the practices had done "significant damage" to the economy. The Competition Council began its investigation into market collusion began after the French consumer association UFC-Que Choisir lodged a complaint. UFC-Que Choisir said that it planned to sue the three companies for damages. The Council said that while the exchanges between the three operators had not related to the price decisions they planned to take, the sharing of information was of the kind that reduced the intensity of competition in the mobile market.

4. France Telecom fined for "negative" ad campaign: FT was fined six million Euros by the Paris Court on November 27 for a 2004 advertising campaign that was found to harm competing telecom provider Free. The fine includes five million Euros for material harm and one million Euros for harm to Free's image. The doomed campaign underlined that all providers, including Free, were using FT's network. Free, a unit of Illiad Group, launched its first DSL service in 2002, using wholesale lines from FT. Three years later, the upstart has succeeded in installing its own gear in hundreds of FT switching centers. Some 69 percent of its customers are now on Illiad's own network.

5. Eutelsat relaunches IPO: Eutelsat Communications, the

holding company of Europe's largest satellite operator Eutelsat, announced on November 28 that it relaunched an initial public offering of shares in the company, one month after abandoning its first attempt because of difficult market conditions. The company aims to raise 860 million Euros from the sale of new shares, and it confirmed that existing shareholders, including investment firms Eurazeo, Texas Pacific Group and Cinven, will not sell any of their holdings as part of the IPO. The sale process will close on December 1, although the company may close the order book early in case of strong demand. Eutelsat had originally hoped to raise 1.2 billion Euros from the sale of shares to the public, before reducing its ambitions to 860 million Euros last month in the face of market volatility and analyst claims that the issue was overpriced. The satellite operator also confirmed its target of 2 percent sales growth for the full year to June 2006.

16. A new Google AdWord campaign for Sarkozy's UMP Party: France's center-right UMP Party recently enlisted the help of Google's AdWords to rally support for the policies of its interior minister, Nicolas Sarkozy, concerning the recent suburban unrest in France. In early November, by entering a number of words associated with France's social unrest into a Google search, an ad pointing to a UMP petition would appear. The ad, which has now been discontinued, read: Suburban violence. Support Nicolas Sarkozy's policy to re-establish order. Arnaud Dassier, of the UMP's new media department, acknowledges that the party bought AdWords for three different themes related to the unrest (political keywords, and keywords related to Sarkozy and the suburbs). Dassier asserts that despite the criticism the party has received, he sees no ethical problem with using the AdWords service to attract more traffic to the UMP website. A reported 3000 people have signed the UMP petition in favor of Sarkozy. Each click on an AdWord cost the UMP money. As a result, anti-Sarkozy bloggers called upon people to raise the UMP's bill by clicking on as many UMP bought AdWords as possible. It is the first time that a government or party in France has used the services of a widely used website to promote its policies in a time of crisis.

17. Crackdown on internet bloggers: The GOF had to police the internet as well as the streets during unrest in early November, as websites, chatrooms and blogs were put to use to encourage and justify the violence. French prosecutors shut down several blogs and arrested three bloggers suspected of inciting violence during the recent urban unrest that rocked France for more than ten days. The bloggers allegedly posted messages that violated French criminal statutes governing violent speech. The blogs in question were hosted on a French site called Skyblog, a unit of French radio station Skyrock. During the unrest, the rapid flow of news reports and communication via cellphone (including SMS), email, and blogs, seemed to literally fuel the fires to the point that reporters refrained from releasing some information out of concern that reports on the number of cars burned the night before and photos of burning cars were being viewed as trophies by those responsible.

18. Digital television spreading faster than expected: Digital Terrestrial TV (DTT) may be received in over 1.035 million French homes, amounting to a penetration of 9.5 percent in currently covered areas. On average 40,000 adapters are being sold every week and sales increased by 85 percent during September and October, according to a recent study by market research institute GFK. A report on accelerating the launch of DTT services has also been released by France's Broadcasting Authority CSA. The report highlights the conditions and requirements necessary to ensure that 85 percent of French residents can access DTT services by March 2007.

19. Orange offers first EDGE-enabled BlackBerry in Europe: On November 28, France Telecom subsidiary Orange announced the launch of the BlackBerry 8700f in France, the first BlackBerry handheld that is compatible with Orange's EDGE network. Customers will be attracted by the fact that it leverages the advantages of Orange's high-speed mobile network, the newly optimized BlackBerry handheld platform, as well as a powerful Intel processor to provide exceptional performance for features such as email, phone, text messaging, Internet, organizer and corporate data applications. The BlackBerry 8700f is expected to be available for Orange's corporate customers in France on December 15, with retail availability planned for January. It will be available in other Orange markets across Europe in a phased rollout during 2006. Jean Marie Culpin, Vice President Business Solutions for Orange France said that "The EDGE-enabled BlackBerry 8700f from Orange is an excellent choice for our customers who want an unrivalled data and voice experience to keep them connected and productive while they are away from their desk." Rivals SFR, whose profits declined by 14 percent in 2004, and Bouygues Telecom, which has the smallest market share but saw

a 60% increase in its 2004 profits, are sure to feel the pressure to launch a similar high-end offer.

Stapleton